

The  Blackstone Group®

Stock Pitch

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Duke Investment Club

- I. Investment Thesis
- II. Industry and Company Overview
- III. Core Businesses
- IV. Valuation

I. Investment Thesis

Blackstone's position as the leading alternative diversified investment platform will drive unit-holder returns as BX's stable growth and operating model are priced in by the market.

Recommendation: Buy

Current Price: \$33.04

Price Target: \$38.10 (15.3% upside)

CATALYSTS

- Increasing investor demand for alternatives provided by BX's diversified product and service offerings
- The alternative asset manager sector trades at a 50% discount relative traditional asset managers
- On a growth basis, BX trades at a discount relative other public alternative asset managers

RISKS

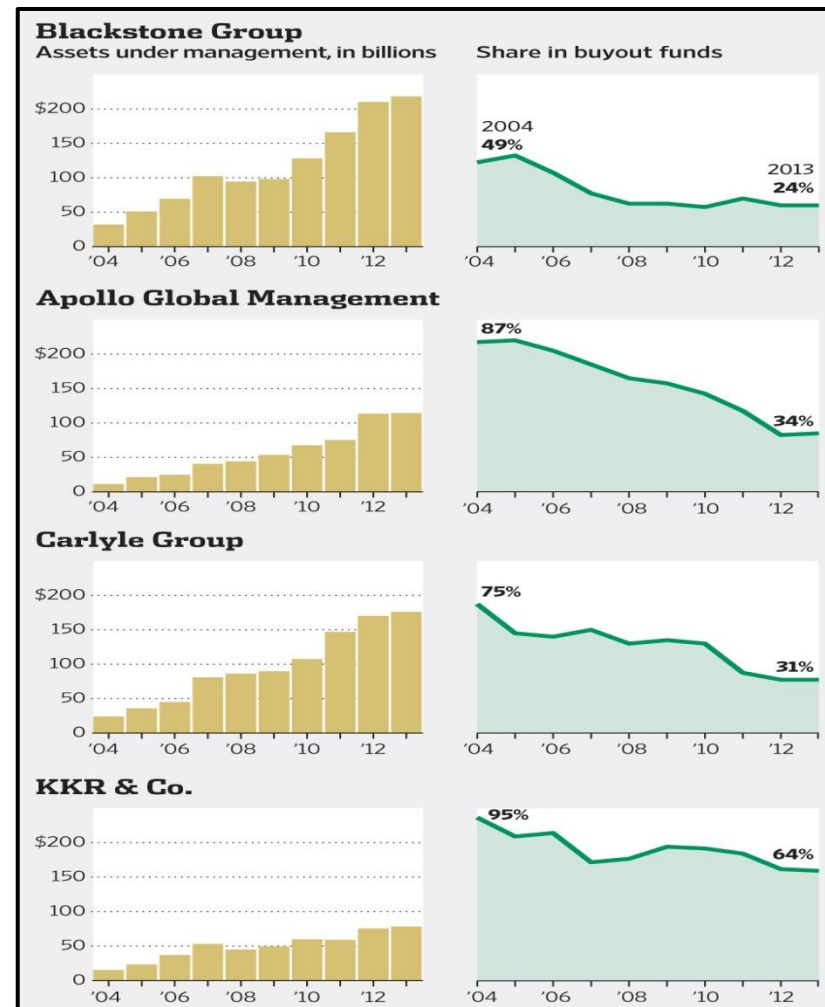
- Regulatory headwinds concerning taxation of the private equity industry
- Market volatility can potentially disrupt all facets of the business model
- The transition of investment decisions to a new team of executives

II. Industry and Company Overview

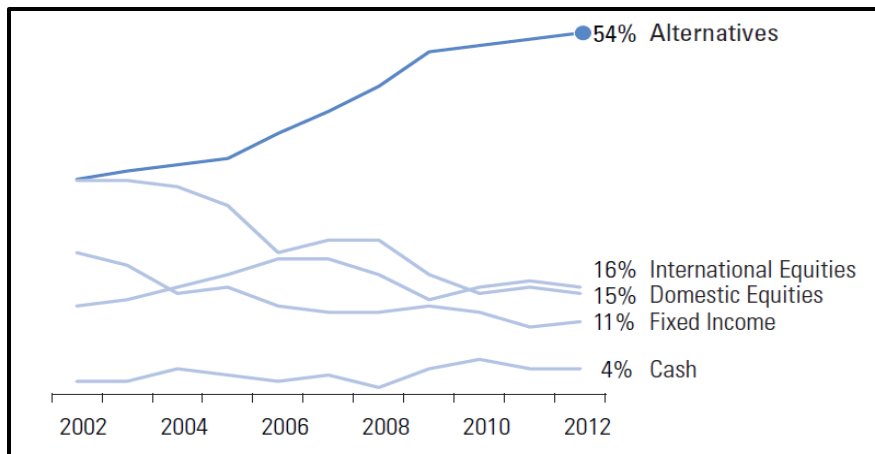
Trends

- Investors have allocated growing positions in alternative strategies over the past decade
 - More access and greater education has driven inflow at a faster rate than its peers
- Increasing popularity of alternative asset managers as they offer investors new opportunities
 - Investors looking for high yield in low-interest rate conditions
- Industry relatively unaffected by regulatory changes impacting the banking system
 - Very little impact from the financial crisis and successful in protecting capital

AUM Growth as Buyout Fund Shares Decreases



Alternative Asset Class Allocations Increasing



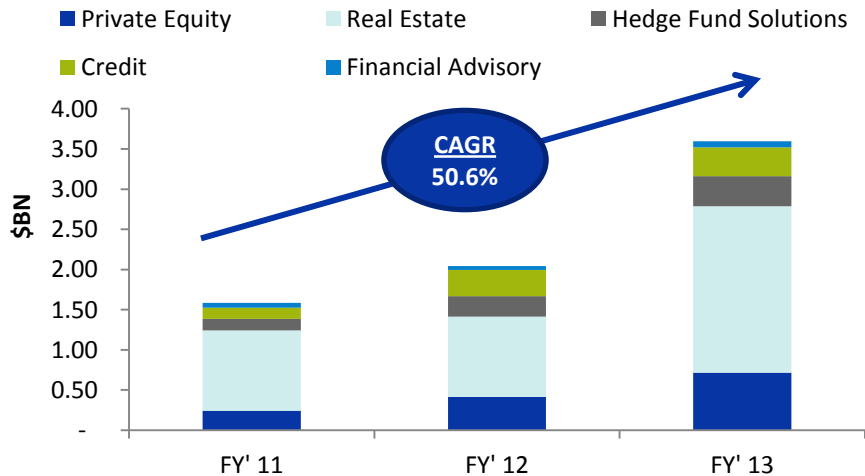
Overview

- Founded as a M&A boutique in 1985 by current CEO Stephen Schwarzman and former Commerce Secretary Peter Peterson
- Has grown into a global alternative asset manager & financial advisory service provider
 - First PE firm to undergo a public offering in 07', trades as a public partnership in shareholder units
 - Holds an industry leading \$266B assets under management
- Operates in five segments: (1) Private Equity, (2) Real Estate, (3) Hedge Fund Solutions, (4) Credit Businesses, (5) Financial Advisory

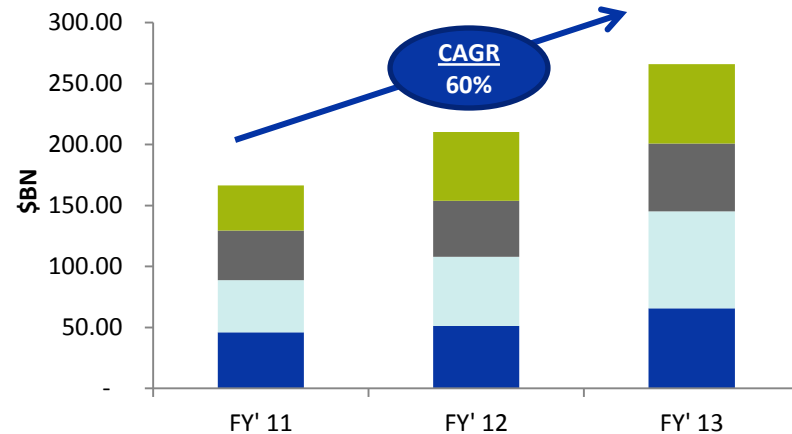
5 Year Stock Performance



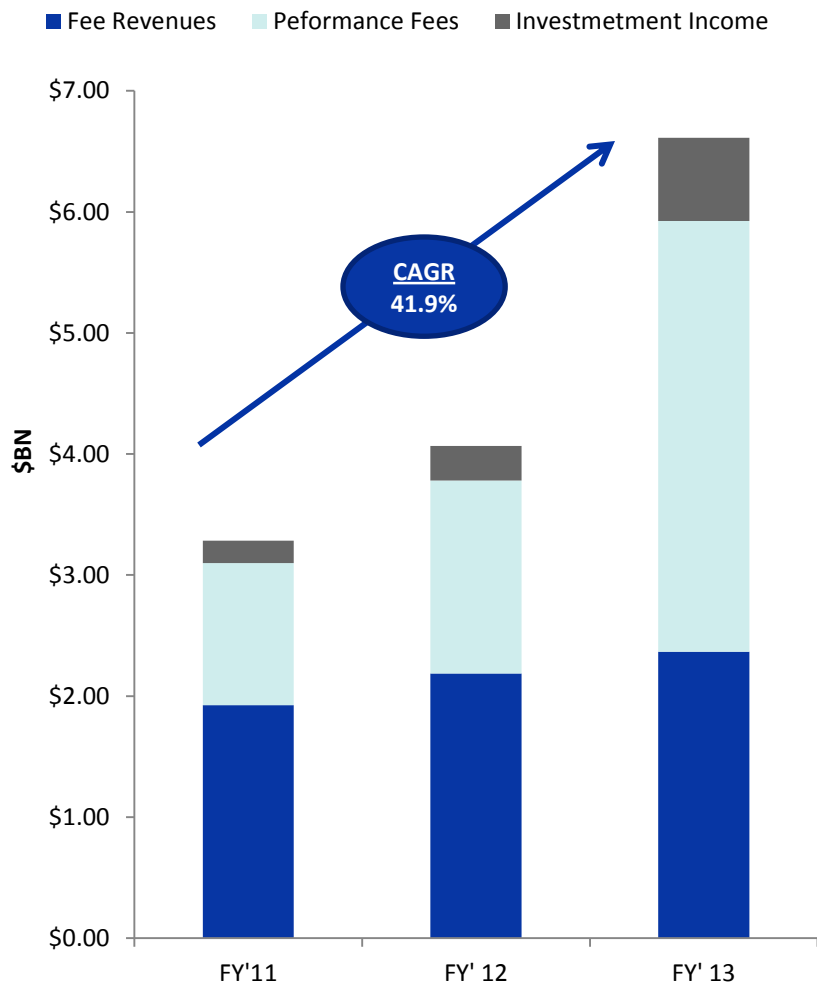
Economic Income by Operating Segment



AUM Growth



Revenue Categories



- **Management and Advisory Fees:** base management fees, transaction and other fees, advisory fees and management fee reductions and offset
 - FY 2013—\$2,286,078 (thousands)
- **Performance Fees (“Incentive Fees”):** recognized based on fund performance during the period, subject to the achievement of minimum return levels, or high water marks
 - FY 2013—\$3,556,373 (thousands)
- **Investment Income:** unrealized and realized gains and losses on the Partnership’s principal investments, including its investments in Blackstone Funds that are not consolidated, its equity method investments, and other principal investments
 - FY 2013—\$687,805 (thousands)
- **Interest Income and Dividend Revenue:** interest and dividend income earned on principal investments held by Blackstone
 - FY 2013—\$70,936 (thousands)
- **Other:** miscellaneous income and foreign exchange gains and losses arising on transactions denominated in currencies other than U.S. dollars
 - FY 2013—\$10,308 (thousands)

III. Core Businesses

Segment Overview

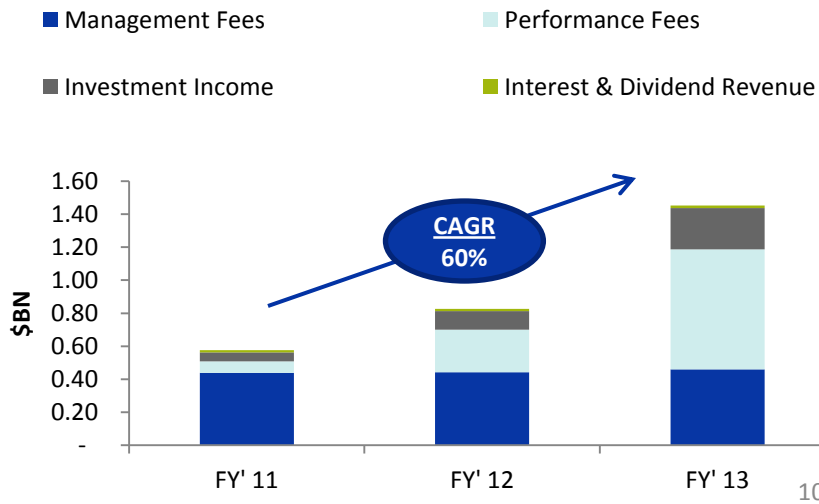
- Expansive activity in LBO acquisitions, growth equity, corporate partnerships
- Strong 2013 performance led to 76% increase of Performance Fees and Investment Income
- Includes six private equity funds and two specialized funds focusing on energy and communications-related investments
 - Multi-Dimensional Investment Approach: pursuing transactions globally
 - Heightened focus on energy fund
- Common themes in deals:
 - Strong value orientation
 - Well defined post-acquisition value creation strategy
 - Robust leverage not required to generate returns
- Current Sectors of focus :
 - Global Power Development
 - Energy Transportation Infrastructure
 - U.S./ European Consumer Finance



Recent Activity

- Completed successful IPOs of Merlin and Hilton (Q4 2013)
- Acquired Strategic Partners (Credit Suisse-run PE business, \$10B AUM)
 - Will generate \$2.7B revenue
- Bought 20% stake in fashion house Versace
- Proposed selling of 15M SeaWorld shares
- Announced sales of Mivisa, Apria, and GeoSouthern
 - Will generate estimated \$2.7 billion of proceeds
- Global surge in buyout interest
 - Israel-based office in coming future

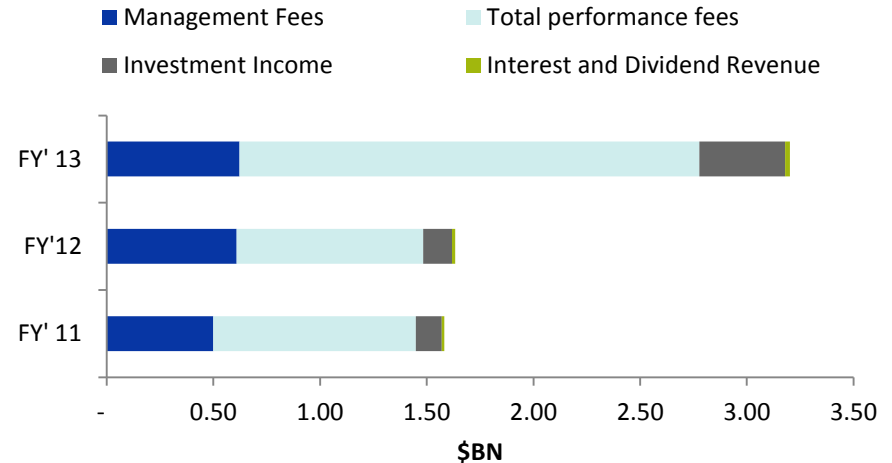
Revenue Breakdown for Private Equity



Description and Composition

- \$79.4 billion of Total Assets Under Management
- Blackstone's portfolio includes hotel, office, retail, industrial and residential properties in the U.S., Europe and Asia
- US: 7 global opportunistic funds, REIT ('BMXT'), CDOs, real estate debt investment funds
- Asia: 1 opportunistic fund, an acquired real estate platform
- Europe: 4 opportunistic funds
- Blackstone Real Estate Partners (BREP) – Opportunistic Funds
- Blackstone Real Estate Debt Strategies (BREDS) – Debt investment funds

Revenue Breakdown



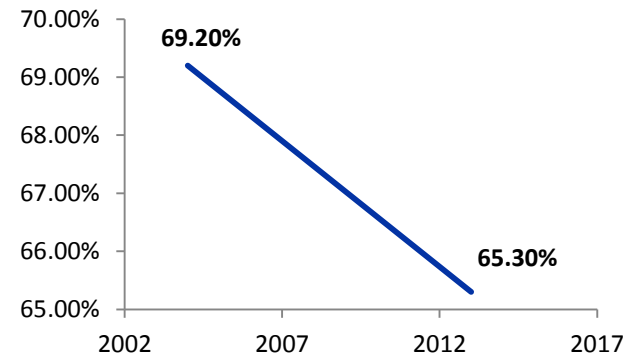
Rental Play



- Saw opportunity in the severe depression of housing prices following the 08' crash
- Invested over \$7.8 billion to purchase 41,000 single family homes (most in foreclosure) for the purposes of rental conversion ; now the largest owner of single family rentals in the US
- In fall of 2013, Issued \$479.1 million worth of bonds backed by the cash flow of 3,207 single family rental properties
 - First bond deal ever structured with rental cash flows
 - About 60% of the securitization received a AAA rating from Moody's

Tailwinds for Rental Growth

US Home Ownership Rates



- Rising rates will make mortgages more expensive
- Reform efforts to replace Fannie & Freddie will have adverse affects of mortgage liquidity
- Bonds backed by rental payments have the potential to be a \$15 billion - \$20 billion asset class

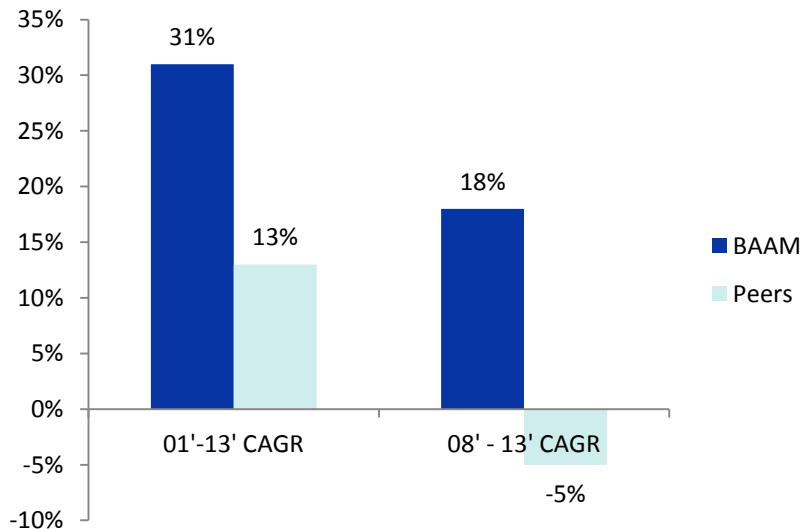
Segment Overview

- Comprised mainly of Blackstone Alternative Asset Management
 - \$55.7B AUM (over\$20 BN larger than next competitor)
- Manages funds of hedge funds & other customized vehicles
 - Also offers advisory platforms and hedge fund seed
- Risk-adjusted returns strategy
 - Diversification, risk management, due diligence major focuses

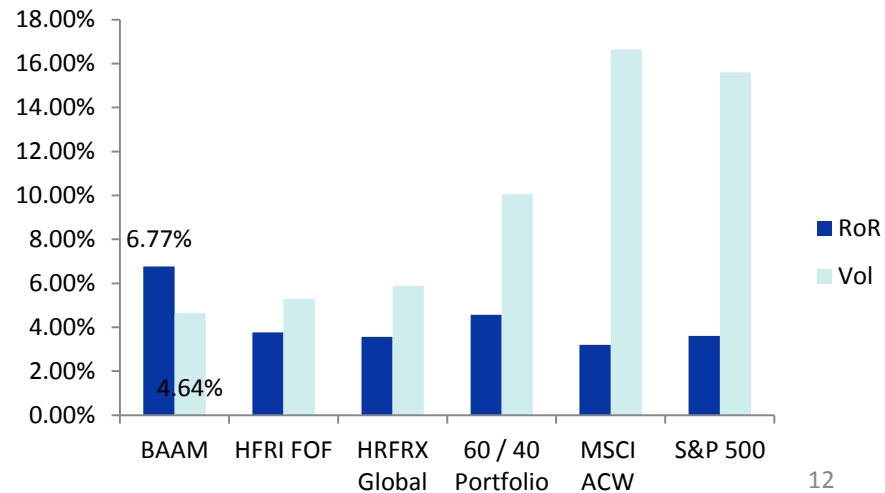
Recent Activity

- FY 13' results very strong: 12.8% composite return, fee earning AUM grew 22% Y/Y, 97% of incentive fee-earning AUM were above high water mark
- Proposed moves to “manufacturing” own hedge fund businesses rather than picking hedge fund manager
 - The Strategic Opportunity Fund makes co-investment with managers, Strategic Capital Advisors take minority stakes in hedge funds
- Launched its first open ended mutual fund product in 2013
 - Received a \$1 billion investment from Fidelity for its fund-of-funds mutual fund
 - Significant growth opportunity in the liquid registered fund market (Retail has 2% allocation in alternatives, pensions 25%, endowments 50%)

AUM Growth



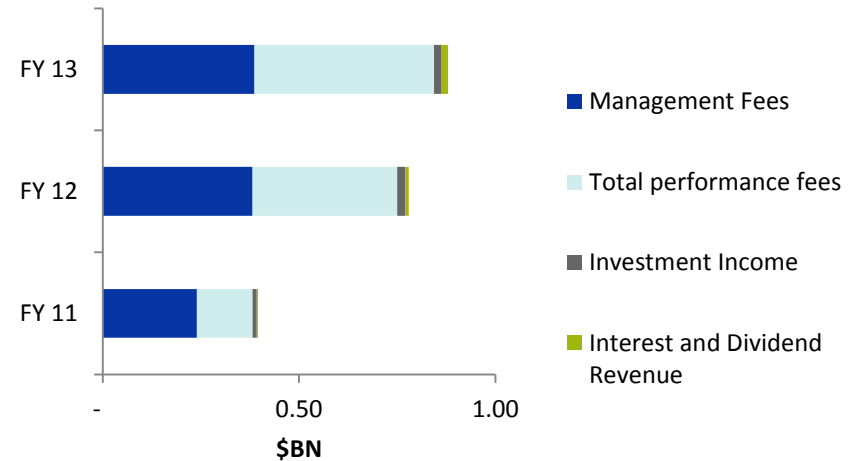
Superior Performance (00'-13')



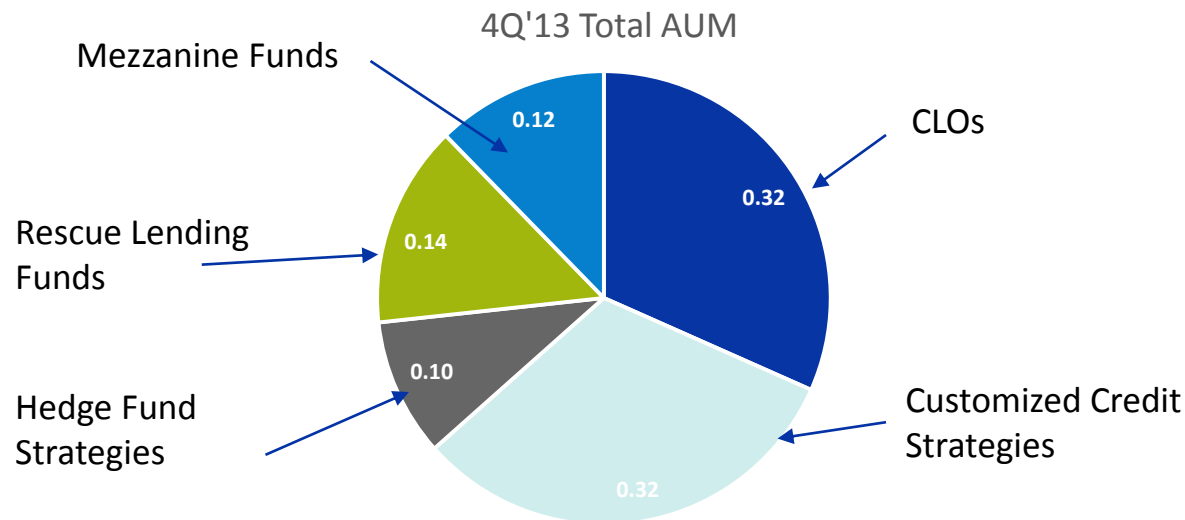
Description and Highlights

- Our credit business, comprised principally of GSO Capital Partners LP (“GSO”)—double digit annual returns
- \$65.0 billion of Total Assets Under Management (15% gain)
- Leading participant in the leveraged finance markets
- Fee-Earning AUM grew 14%
- Performance fees up 24%—drove revenue to \$880m and EI to \$358m
- Blackstone/GSO Strategic Credit Fund began issuing monthly distributions of \$0.105 per share

Credit Revenue Breakdown



AUM Structure



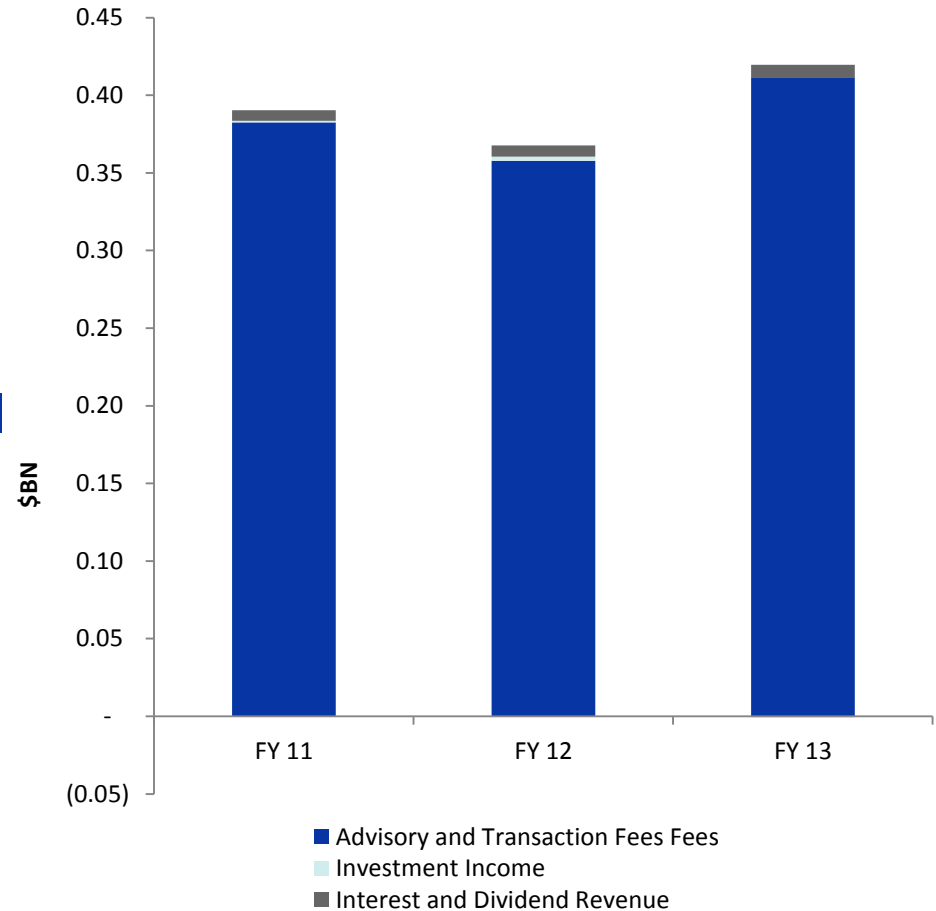
Description

- Financial and strategic advisory services, restructuring and reorganization advisory services, capital markets services
- Park Hill Group-provides fund placement services for alternative investment funds
- Financial and Strategic Advisory Services – “Blackstone Advisory Partners”
- “Restructuring and Reorganization”

FY 13' Highlights

- Full year revenues were up 15% in 2013
- Restructuring had its second best year of revenue
- Park Hill’s double-digit growth in placement fee revenue
- Blackstone Advisory Partners had a backlog of assignments at the end of the year

FA Revenue Breakdown

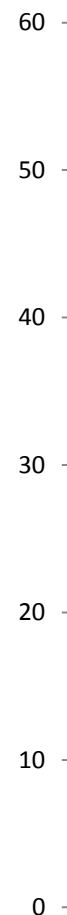


IV. Valuation

Summary Valuation Slide

Multiple	Implied Price per Share (\$)
Market Regression	55.26
Asset Managers Regression	50.28
Financial Firms Regression	44.00
P/E Alternative Asset Managers	19.22
P/S Alternative Asset Managers	37.03
PEG Alternative Asset Managers	55.64
P/ AUM Growth Alternative Asset Managers	40.04
P/E Traditional Asset Managers	33.61
EV/EBITDA Asset Managers	36.15
Price target	38.1 (15.3%)

Comparison of Implied Prices



Multiple Regression Analysis

Blackstone

Overall Market Regression Statistics

R Squared	11%
Number of Observations	29
5 year predicted growth rate (p-value)	52.52%
Beta (p-value)	39.85%
Dividends payout ratio (p-value)	31.75%
Implied price-to-earnings ratio	27.3
Implied price-per-share	\$ 55.26

Financial Firms Regression Statistics

R Squared	34%
Number of Observations	10
5 year predicted growth rate (p-value)	61.32%
Beta (p-value)	24.82%
Dividends payout ratio (p-value)	80.55%
Implied price-to-earnings ratio	21.7
Implied price-per-share	\$ 44.00

Asset Managers Regression Statistics

R Squared	52%
Number of Observations	21
5 year predicted growth rate (p-value)	0.09%
Beta (p-value)	15.63%
Dividends payout ratio (p-value)	69.21%
Implied price-to-earnings ratio	24.8
Implied price-per-share	\$ 50.28

Blackstone

Price	P/E	5 yr. grw. (E)	Beta	Payout
\$ 33.04	16.6	22%	2.15	44%

- **Overall Market:** Risk and dividends are the most important attributes for firms similar to BX
 - High valuation implies BX's fast growth outweighs its risk
- **Financial Firms:** BX's volatility leads to a much lower valuation and its dividends and growth rates don't hold as much weight
- **Asset Managers:** Growth is the most important metric and is statistically significant!
 - Implies BX's risk does hinder its growth

Comparable Companies Analysis – Alternative Asset Managers

P/E Sensitivity Analysis

P/E	Implied PPS	
7.7	\$ 15.26	■ Comparable Firms: ACAS, APO, ARCC, CG, FIG, KKR based on MCAP
8.7	\$ 17.24	
9.7	\$ 19.22	■ BX's current price \$33.04
10.7	\$ 21.20	■ Overvalued from GAAP earnings perspective
11.7	\$ 23.18	■ P/E is bad multiple since GAAP earnings do not accurately reflect BX's business operations

P/S Sensitivity Analysis

	P/S	Implied PPS
■ BX has current P/S 2.9	1.3	\$ 14.59
■ Slightly undervalued based on sales (12% upside)	2.3	\$ 25.81
■ 1 year revenue is not a good enough predictor of future business	3.3	\$ 37.03
	4.3	\$ 48.25
	5.3	\$ 59.47

PEG Sensitivity Analysis

Peer PEG	Peer Implied PE	Peer Implied PPS
1.4	21.84	\$ 43.27
1.6	24.96	\$ 49.46
1.8	28.08	\$ 55.64
2	31.2	\$ 61.82
2.2	34.32	\$ 68.00

- BX has 1 year PEG of 2.1 and peer med PEG is 2.8
- If the market were to value BX's growth at the same level as its most undervalued peers (Q1), BX is still undervalued (68% upside)

P/AUM Growth Sensitivity Analysis (PE firms)

	P/CAGR	Implied PPS
■ BX's total AUM has grown at 27% annually over the last 4 years	1.25	\$ 34.51
■ AUM growth is an indicator for management skill and investor demand	1.35	\$ 37.28
■ Valuing BX's skill and demand in comparison to Carlyle, Apollo, and KKR indicates a 21% upside	1.45	\$ 40.04
	1.55	\$ 42.80
	1.65	\$ 45.56

Comparable Companies Analysis – Traditional Asset Managers

Screening Criteria

- Focus on large MCap Asset Managers: Blackrock, T Rowe Price, Franklin Resources, Invesco
- \$2B + MCap
- \$127 B – 4.3 T in AUM

BX Comps Data and Assumptions

- Price: \$33.06
- Market Capitalization: \$19.10B
- Enterprise Value: \$27.98B
- AUM: 266B
- 5 yr. EPS Growth Estimate: 22%
- 2013 Earnings: 1.17B

P/E Sensitivity Analysis

- Fairly valued from a vanilla P/E comps analysis vs. traditional asset managers

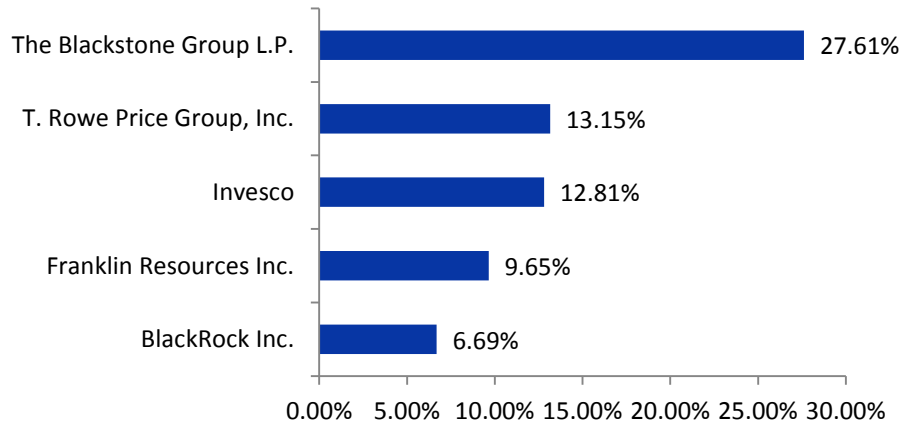
		P/E Sensitivity				
FTM P/E		9.9	11.9	13.9	15.9	17.9
Implied MCap		14146	17004	19861	22719	25577
Implied Share Price		23.94	28.77	33.61	38.44	43.28

1 yr EPS growth

		7.0%	10.0%	13.0%	16.0%	19.0%	22.0%	25.0%	28.0%	31.0%	34.0%
FTM P/E	9.9	20.99	21.58	22.17	22.76	23.35	23.94	24.52	25.11	25.70	26.29
	11.9	25.23	25.94	26.65	27.36	28.06	28.77	29.48	30.19	30.89	31.60
	13.9	29.47	30.30	31.13	31.95	32.78	33.61	34.43	35.26	36.09	36.91
	15.9	33.72	34.66	35.61	36.55	37.50	38.44	39.39	40.33	41.28	42.22
	17.9	37.96	39.02	40.08	41.15	42.21	43.28	44.34	45.41	46.47	47.53

Comparable Companies Analysis – Traditional Asset Managers

P/AUM Growth Analysis (AM)



EV/EBITDA Analysis

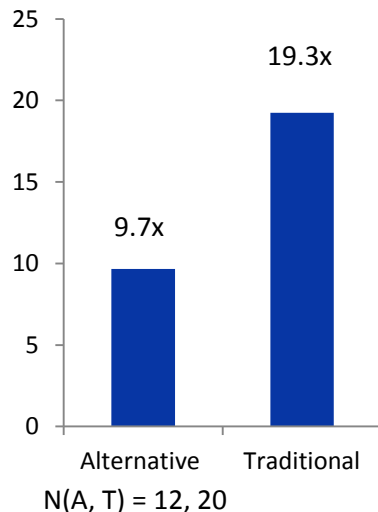
- EV/EBITDA across traditional asset managers suggests slight undervaluation
- Not the most robust valuation technique

Cash	832
Cash Held by Blackstone Funds and Other	1,046
Debt	10,466
Minority Interest	199
Preferred Shares	89
2014E EBITDA	2,528

EV/EBITDA Sensitivity

	6.5	7.5	8.5	9.5	10.5
Implied EV	16307	18835	21363	23891	26419
Implied Share Price	27.59	31.87	36.15	40.43	44.70

Sector P/E – Traditional vs. Alternative Asset Managers



- The market is valuing traditional asset managers roughly twice as highly (9.7x trailing vs. 19.25x)
- Blackstone has been growing its AUM multiples faster than traditional AM peers
- Implied price of \$144 if Blackstone were valued against peer AMs using Price/AUM growth